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C O N F I D E N T I A L SECTION 01 OF 02 ALGIERS 001307

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CAIRO PASS TO TREAS ASEVERENS

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TAGS: EFIN EINV ECON PGOV PREL AG
SUBJECT: CENTRAL BANK CHIEF STAYS THE REGULATORY COURSE

REF: ALGIERS 384

Classified By: Ambassador David D. Pearce for reasons 1.4 (b) and (d).

¶1. (C) SUMMARY: Bank of Algeria Governor Mohamed Laksaci told the Ambassador December 7 that he and his organization are focused almost to a fault on bank regulation rather than on financial system modernization. Laksaci has been with the central bank in various positions since 1990, and remains dedicated to keeping the institution independent and credible by ensuring that banks in Algeria meet their legal obligations. The scandals associated with the collapse of the Khalifa Group in 2003 have strong reverberations even today (reftel), such that any loosening of inspection rules or foreign exchange regulations will have to be legislated. In addition, the institution's capacity for rapid change is limited. The Ambassador expressed his support for the U.S. Treasury resident advisor technical assistance program in place at the central bank, and Laksaci likewise endorsed the project. Laksaci also noted that the bank is working with the IMF on technical assistance and evaluation projects, and seems to rely heavily on their assessments. Even though Laksaci admitted to the Ambassador that he was an economist and not a banker, he would not opine on broader issues of economic reform. END SUMMARY.

SCARED STRAIGHT

¶2. (C) The Ambassador asked Laksaci about progress with financial system reform and about the government's goals for the economy in general. Laksaci said the Algerian economy has proved resilient by weathering the current global financial crisis, showing decent growth and comparatively low inflation relative to other nations in the region. He highlighted the nearly USD 140 billion Algeria holds in foreign reserves, 40 percent of which he said was in Euro. He noted, regarding the financial sector, that the 13 private banks in Algeria are foreign (six others are state-owned), and several of these are now in the process of trying to expand retail networks across the country. Laksaci said these banks should be in a good position to provide financing to small and medium sized enterprises, especially in the interior of Algeria. He highlighted the growth in public works projects in recent years, and said that two evaluations done by the World Bank and the IMF confirmed that Algeria's banking system conforms to standards regarding systems of

payment and related functions.

¶3. (C) Laksaci focused his comments, however, on the work of the central bank in regulating the financial sector rather than on efforts to modernize the banking system. He said the activities the Khalifa Bank from 2000 to 2003, which ultimately led to its collapse and the loss of public pension funds, had caused the government, and the central bank itself, to become "very prudent." Other small, domestic private banks also operating during that time had delegated internal control of their operations to "intermediaries," Laksaci explained, and the lack of due diligence that resulted caused their collapse. Changes to banking laws in 2006 and 2007, he added, had tightened the requirements for internal controls and management, and resulted in improved quality of the banks doing business in Algeria.

NO BREAK FOR BANKERS

¶4. (C) Laksaci acknowledged that bankers working in Algeria chafe against the rigid oversight rules implemented by the central bank (reftel). He noted that the rules governing the transfer of dividends have been simplified, but stressed that the restraints on foreign exchange and the convertibility of the dinar are not the bank's doing, but are written into the law and require changes to the law for the bank to end what is perceived as heavy-handedness among bank examiners. He said this includes the inspection of bank records and holding bankers accountable for the actions of their importer clients engaged in foreign exchange transactions. Laksaci said the

central bank was under "great pressure" to change its practices, especially from Gulf state banks and investors. But he also seemed unfazed and unimpressed by these same institutions. Among foreign banks doing business in Algeria, he noted, Citibank and the French banks are dynamic and trying to do good things, whereas the Gulf banks do nothing to develop the market or the economy.

THE ECONOMY IS NOT MY JOB

¶5. (C) The Ambassador pressed Laksaci for insight into the government's plans for the economy vis-a-vis the banking system, asking what an enterprising Algerian would likely encounter if he or she were to present a business plan to a bank in order to get a loan to build a small factory. Laksaci avoided answering the question directly, and when the Ambassador again asked him how the Algerian people can access the financial system, Laksaci would only suggest that there is a lot of credit available in the market but that the consumers have focused on buying cars. He gave the standard government response that the state's infrastructure projects should spur local development and job creation, but admitted that the problem of youth unemployment was persistent, and that available credit needed to be better disseminated to small businesses. He also returned to his theme that banking reform in Algeria has included the need for stricter control and regulation, and that his bank examiners conform to international norms in that regard.

¶6. (C) COMMENT: Given the scope of the Khalifa scandal and the call for financial system retrenchment that followed it, Laksaci's focus on maintaining control of the banking system to prevent another collapse is understandable. As a long-time employee of the institution, he fiercely guards the central bank's hard-won independence from the finance ministry, and what he considers to be its credibility in adhering to international standards. The U.S. Treasury's resident advisor noted privately after the Ambassador's meeting that he has recommended to the governor that the bank separate foreign exchange inspection responsibility from the duties of regular bank examiners. While not eliminating all of the complaints we hear from bankers regarding the strict

enforcement of administrative rules, such a division of responsibility would elevate the status of true bank examiners and allow them to focus on priority inspections and helping banks meet their obligations. It would also remove some of the negative police-like stigma that bankers have come to associate with the bank examiners, who have thus far borne undifferentiated police responsibility over even relatively minor bank infractions.

PEARCE